

TOBACCO SETTLEMENT REVENUE
MANAGEMENT AUTHORITY
(A Component Unit of the State of South Carolina)

Financial Statements

June 30, 2021



SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
1401 Main Street, Suite 1200 • Columbia, SC 29201

September 27, 2021

Members of the Tobacco Settlement Revenue
Management Authority
Columbia, South Carolina

This report on the audit of the financial statements of the Tobacco Settlement Revenue Management Authority for the fiscal year ended June 30, 2021, was issued by The Hobbs Group, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

George L. Kennedy, III, CPA
State Auditor

GLKIII/trb

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A Component Unit of the State of South Carolina)

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INDEPENDENT AUDITORS' REPORT

Mr. George L. Kennedy, III, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Tobacco Settlement Revenue Management Authority (the "Authority"), a component unit of the State of South Carolina as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2021, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 21 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Columbia, South Carolina
September 27, 2021

The Hall Group, P.A.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2021

This section of the annual financial report of the Tobacco Settlement Revenue Management Authority (the "Authority") presents the analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2021. Please read it in conjunction with the financial statements and their accompanying notes, which follow this section.

The Authority

The Authority was created by Act No. 387 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina (the "General Assembly"), Regular Session of 2000, as codified at Section 11-49-10 of the South Carolina Code of Laws 1976, as amended (the "Act"), as an instrumentality of the State of South Carolina (the "State"). The Act created the Authority to receive all of the State's payments under the Master Settlement Agreement (the "MSA"). The MSA was entered into on November 23, 1998, among the attorneys general of 46 states (including South Carolina), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands (collectively the "Settling States") and the four largest United States tobacco manufacturers: Philip Morris Incorporated, R. J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, and Lorillard Tobacco Company (collectively the "Original Participating Manufacturers" or "OPMs"). The MSA resolved cigarette smoking-related litigation among the Settling States and the OPMs, released the OPMs from past and present smoking-related claims by the Settling States, and provides for a continuing release of future smoking-related claims in exchange for certain payments to be made to the Settling States. The MSA also provides for the imposition of certain tobacco advertising and marketing restrictions, among other things. The Authority is not a party to the MSA.

The State is entitled to certain periodic payments made under the MSA. Pursuant to the Act, the Authority has been assigned all Tobacco Settlement Receipts ("TSRs"), which are the State's right, title and interest in payments due after June 30, 2001 under the MSA. The assignment of the TSRs is irrevocable during any time when bonds are outstanding, plus one year and one day thereafter, and is a part of the contractual obligation owed to the Authority's bondholders.

Overview of the Financial Statements

This analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements consist of three components: 1) government-wide financial statements, 2) governmental fund financial statements, and 3) notes to the financial statements.

- *The Statement of Net Position and Governmental Fund Balance Sheet* include all of the Authority's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. The *Statement of Net Position* reports information about the Authority using accounting methods similar to those used by private sector companies and presents all assets and liabilities of the Authority – both current and long-term. The *Governmental Fund Balance*

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2021

Sheet of the General Fund focuses only on the Authority's resources available for expenditure at the end of the fiscal year.

- All the current year's activity is accounted for in the *Statement of Activities* and *Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance*. These statements measure the success of the Authority's operations over the past year and can be used to determine the Authority's credit-worthiness and ability to meet its financial objectives. The *Statement of Activities* presents information on how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The *Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance* focuses only on the Authority's near-term inflows and outflows of resources available for expenditure for the fiscal year.

Summary of Financial Results

The Authority's financial results are summarized, discussed and compared to the prior fiscal year in the sections following.

Government-Wide Financial Statements

Statement of Net Position. The following table summarizes the Authority's Net Position for the period ending June 30, 2021, along with comparative data for the prior fiscal year.

	June 30, 2021	June 30, 2020	Increase (Decrease)	
			Difference	%
Assets				
Cash and cash equivalents	\$ 5,283,253	\$ 42,102,808	\$ (36,819,555)	-87.5%
Tobacco settlement payments receivable	38,000,000	34,000,000	4,000,000	11.8%
Total assets	43,283,253	76,102,808	(32,819,555)	-43.1%
Liabilities				
Due to Health and Human Services	122,419	36,910,764	(36,788,345)	-99.7%
Total liabilities	122,419	36,910,764	(36,788,345)	-99.7%
Net position				
Restricted by statute	38,000,000	34,000,000	4,000,000	11.8%
Unrestricted	5,160,834	5,192,044	(31,210)	-0.6%
Total net position	\$ 43,160,834	\$ 39,192,044	\$ 3,968,790	10.1%

The Authority's assets include cash and cash equivalents, and accrued earnings on those cash and cash equivalents. Certain of the Authority's assets are classified as restricted by statute because they are subject to external legal constraint for appropriation by the State in accordance with the expenditure provisions of Section 11-11-170 of the South Carolina Code of Laws 1976, as amended (the "Expenditure Act"). The remaining assets are held by the Authority to pay its authorized operating expenses.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2021

The Authority's cash and cash equivalents decreased by 87.5 % over the course of the fiscal year. This decrease is due to the Authority remitting the funds it previously held on behalf of the South Carolina Department of Health and Human Services ("HHS") which were due to HHS per State proviso. The Authority held \$122,419 of cash due to HHS, which represented a 99.7% decrease due to the amounts remitted to HHS as discussed above. Tobacco settlement payments receivable increased by \$4,000,000, or 11.8%, due to an increase in anticipated payments during fiscal year 2021 based on expected cigarette sales. Total assets decreased by 43.1% reflecting these same factors.

Net position restricted by statute is comprised of that portion of TSRs forecasted to be earned in the current fiscal year but received in the ensuing fiscal year. The amount of TSRs is dependent on many factors including future tobacco consumption, certain adjustments, and the financial capability of the OPMs and consequently, except as noted above, do not meet asset recognition criteria under accounting principles generally accepted in the United States of America ("GAAP").

Statement of Activities. The following table summarizes the Authority's activities for the period ending June 30, 2021 with comparative amounts for the prior fiscal year.

	June 30, 2021	June 30, 2020	Increase (Decrease)	
			Difference	%
General revenues				
Tobacco settlement revenues	\$ 88,349,252	\$ 71,750,165	\$ 16,599,087	23.1%
Investment earnings	976,325	795,809	180,516	22.7%
Total general revenues	89,325,577	72,545,974	16,779,603	23.1%
Expenses				
General government	2,059,210	2,057,780	1,430	0.1%
Total expenses	2,059,210	2,057,780	1,430	0.1%
Excess of general revenues over expenses before transfers	87,266,367	70,488,194	16,778,173	23.8%
Transfers				
Transfers to state funds and programs pursuant to proviso	(83,297,577)	(74,017,974)	(9,279,603)	12.5%
Total transfers	(83,297,577)	(74,017,974)	(9,279,603)	12.5%
Change in net position	3,968,790	(3,529,780)	7,498,570	212.4%
Net position - beginning of year	39,192,044	42,721,824	(3,529,780)	-8.3%
Net position - end of year	\$ 43,160,834	\$ 39,192,044	\$ 3,968,790	10.1%

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2021

General revenues of approximately \$89.3 million reflect the receipt of and accrual for TSRs and investment earnings. Revenues increased year over year by \$16,779,603 or 23.1% which represent increases in tobacco settlement payments that have been received by the Authority for the year ended June 30, 2021 in addition to an increase of \$4,000,000 for the amount of estimated tobacco settlement payments receivable which will be collected in April 2022. These payments are dependent on remittances received by the State under the MSA each year. In addition, investment earnings of \$976,325 were earned during the year ended June 30, 2021, which increased by \$180,516 due to an increase in cash balances held during the majority of the fiscal year, but a significant amount was remitted to HHS later in the year as discussed previously.

The Authority's expenses primarily consisted of its administrative expenses and directed transfers to other state agencies for diligent enforcement. Total expenses increased minimally by approximately \$1,430. Transfers to the state fund increased by \$9,279,603 as a result of the increase in tobacco settlement payments received during the year ended June 30, 2021 which are subsequently transferred to State funds and programs.

Governmental Funds

As of the end of the current fiscal year, the ending fund balance in the Authority's governmental fund was \$43,160,834, an increase of \$3,968,790 by comparison to the prior fiscal year due to an increase in receipt of TSRs. Of the total fund balance, \$38,000,000 is restricted for statutory expenditures. The factors contributing to the change in fund balance year over year are the same as those described above in the discussion and analysis of the government-wide financial statements.

Long-Term Debt Activity

On March 22, 2001, the Authority issued \$934,530,000 aggregate principal amount of Tobacco Settlement Asset-Backed Bonds (the "Series 2001 Bonds") pursuant to an indenture between the Authority and United States Trust Company of New York (subsequently acquired by the Bank of New York), as trustee, dated as of March 1, 2001, and the Tobacco Settlement Revenue Management Authority Act. On June 26, 2008, the Authority defeased the Series 2001 Bonds with certain cash funds and proceeds of \$275,730,000 Tobacco Settlement Revenue Management Authority Tobacco Settlement Revenue Asset-Backed Refunding Bonds, Series 2008 (the "Series 2008 Bonds") issued pursuant to an indenture between The Bank of New York Trust Company, N.A., as trustee, and the Tobacco Settlement Revenue Management Authority. All of the Series 2001 Bonds are deemed paid within the meaning of and with the effect expressed in, and accordingly are no longer outstanding under, the Trust Indenture.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2021

The Series 2008 Bonds were scheduled to retire in ordinary course on June 1, 2018; however, under early redemption provisions ("Turbo Redemptions"), any MSA payments exceeding annual debt service requirements of the Series 2008 Bonds were applied to early redemption of principal. On June 1, 2012, the Authority had sufficient funds to redeem as Turbo Redemptions the entire principal amount of the Series 2008 Bonds then outstanding; accordingly, all of the Authority's debt has been fully discharged.

The Authority has no present plans to undertake the issuance of additional debt.

Budgetary Highlights

The Authority annually adopts an operating budget as required by its by-laws. From a budgetary perspective, the Authority realized a \$31,210 deficiency of revenues over expenditures during the fiscal year ended June 30, 2021 which arose due to factors described in the Summary of Financial Results contained herein. The difference between the budgetary excess, as compared to the excess reported on the Statement of Activities, is due primarily to the lack of recognition of the \$4,000,000 increase in tobacco settlement payments receivable under the budgetary basis of accounting.

Economic Factors and Outlook

As noted above, the amount of TSRs is dependent on many factors including future tobacco consumption, certain adjustments, and the financial capability of the OPMs; accordingly, the amount of future TSRs, and particularly the financial effects of the Disputed Payments Settlement thereon, cannot be presently determined with precision. Additionally, the coronavirus disease's ("COVID-19") effect on the Authority will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. Should COVID-19 have a significant impact on future cigarette sales, it could have a related impact on the Authority's revenues, however, at this time the Authority is not currently aware of any significant anticipated effects of COVID-19.

Since all of the Authority's debt has been fully discharged and the Authority has no present plans to undertake the issuance of additional indebtedness, the effects of these factors on the Authority's debt profile have been abated. The Authority's continuing responsibility thereafter is limited to the receipt and distribution of future TSRs as prescribed by law.

Contacting the Authority

Persons needing additional information concerning this report or otherwise needing to contact the Authority should address requests to:

SC Office of the Treasurer
1200 Senate Street, Suite 214
Wade Hampton Office Building
Columbia, SC 29201

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)

STATEMENT OF NET POSITION

JUNE 30, 2021

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 5,283,253
Tobacco settlement payments receivable	38,000,000
Total assets	<u>43,283,253</u>
Liabilities	
Due to Health and Human Services	<u>122,419</u>
Total liabilities	<u>122,419</u>
Net position	
Restricted by statute	38,000,000
Unrestricted	5,160,834
Total net position	<u>\$ 43,160,834</u>

The Notes to Financial Statements are an integral part of this statement.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2021

	Governmental Activities
Program expenses	
General government	\$ 2,059,210
Total expenses	<u>2,059,210</u>
Net program expense	<u>2,059,210</u>
General revenues	
Tobacco settlement revenues	88,349,252
Investment earnings	<u>976,325</u>
Total general revenues	<u>89,325,577</u>
Change in net position before transfers	87,266,367
Transfers	<u>(83,297,577)</u>
Transfers to state funds and programs pursuant to proviso	<u>(83,297,577)</u>
Change in net position	3,968,790
Net position	
Beginning of the year	<u>39,192,044</u>
End of the year	<u>\$ 43,160,834</u>

The Notes to Financial Statements are an integral part of this statement.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)
GOVERNMENTAL FUND BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2021

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 5,283,253
Tobacco settlement payments receivable	<u>38,000,000</u>
Total assets	<u>43,283,253</u>
Liabilities	
Due to Health and Human Services	<u>122,419</u>
Total liabilities	<u>122,419</u>
Fund balance	
Restricted by statute	38,000,000
Committed to operating expenses	<u>5,160,834</u>
Total fund balance	<u>43,160,834</u>
Total liabilities and fund balance	<u>\$ 43,283,253</u>

The Notes to Financial Statements are an integral part of this statement.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)

GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2021

	<u>General Fund</u>
Revenues	
Tobacco settlement revenues	\$ 88,349,252
Investment earnings	<u>976,325</u>
Total revenues	89,325,577
Expenditures	
General government	<u>2,059,210</u>
Total expenditures	<u>2,059,210</u>
Excess of revenues over expenditures before transfers	87,266,367
Transfers	
Transfers to state funds and programs pursuant to proviso	<u>(83,297,577)</u>
Total transfers	<u>(83,297,577)</u>
Net change in fund balance	3,968,790
Fund balance	
Beginning of the year	<u>39,192,044</u>
End of the year	<u><u>\$ 43,160,834</u></u>

The Notes to Financial Statements are an integral part of this statement.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Note 1. Reporting Entity

The Tobacco Settlement Revenue Management Authority (the "Authority") is a public body and an instrumentality of the State of South Carolina (the "State") established in 2001 pursuant to Section 11-49-10 et seq. of the South Carolina Code of Laws 1976, as amended. The State transferred to the Authority all of its rights and interests under the Master Settlement Agreement (the "MSA") and the Consent Decree and Final Judgment (the "Decree") between all participating States and the participating Tobacco manufacturers. These rights include the State's share of all Tobacco Settlement revenue received after June 30, 2001 and in perpetuity to be received under the MSA.

The core of a financial reporting entity is the primary government which has a separately elected governing body. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The Authority has determined that it qualifies as a primary entity, it is a component unit of the State of South Carolina, and it has no component units.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex-officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all of the following powers:

- (1) Determines its budget without another government having the authority to approve and modify that budget.
- (2) Levies taxes or sets rates or charges without approval by another government.
- (3) Issues bonded debt without approval by another government.

The organization is fiscally dependent on the primary government or entity that holds one or more of the above powers. Based on these criteria, the Authority is a blended component unit of the primary government of the State. Accordingly, the financial statements are blended in the State's special revenue funds in the State's Annual Comprehensive Financial Report.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

Note 1. Reporting Entity (continued)

The Authority is governed by a board, which consists of five members. The members are the Governor or his designee, the State Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee. The Governor serves as chairman; in the absence of the Governor, the meeting is chaired by the State Treasurer. All members of the Board serve ex officio.

Note 2. Summary of Significant Accounting Policies

General

In its accounting and financial reporting in conformity with accounting principles generally accepted in the United States of America, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB").

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Government-wide financial statements (i.e., the statement of net position and the statement of activities) do not provide information by fund. Significantly, the statement of net position may include non-current assets and liabilities, which generally are not included in the fund statements. The statement of net position includes three components of net position.

- (1) Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. The Authority does not have any capital assets; thus this classification is not used.
- (2) Restricted net position consists of net position subject to external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. The Authority reports that portion of its net position restricted by statutory constraints as restricted net position.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

Note 2. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

- (3) Unrestricted net position consists of net position that does not meet the definition of restricted net position or invested in capital assets, net of related debt. The Authority reports that portion of its net position not externally constrained, primarily funds available for payment of its authorized operating expenses, as unrestricted net position.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers who purchase, use, or benefit from the services provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted interest income and other items not properly included among program revenues are reported as general revenues. The Authority has no program revenues.

In addition to the government-wide financial statements, the Authority has prepared financial statements for the Authority's only governmental fund. Governmental fund financial statements use the modified accrual basis of accounting and the current financial resources measurement focus. Tobacco Settlement Revenues ("TSRs") are recognized as soon as they are considered measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within one year after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

The Authority reports one governmental fund, the General Fund, which is the general operating fund of the Authority. It is used to account for all financial resources of the Authority. As a blended component unit of the State, the Authority's General Fund is reported as a special revenue fund in the financial statements of the State.

Asset Recognition Criteria for TSRs

The Authority implemented GASB Technical Bulletin No. 2004-1: *Tobacco Settlement Recognition and Financial Reporting Entity Issues* (the "Bulletin"), effective July 1, 2003. The Bulletin requires the Authority to recognize TSRs when the event giving rise to recognition occurs (the domestic shipment of cigarettes by the tobacco manufacturers) in the government-wide financial statements, and when the event occurs and the TSRs become available in the fund financial statements. Other than the asset recognition criteria required by the Bulletin, future collections are not measurable and are therefore not recorded as assets in either the government-wide financial statements or the government fund financial statements.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Note 2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash includes cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date acquired by the Authority.

Investments

Investments, if any, are recorded on the Statement of Net Position and the Governmental Fund Balance Sheet at fair value. All investment income, including changes in the fair value of investments, is reported as revenue in the Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balance.

Fund Balance

The Authority reports fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications for governmental funds that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported therein. The Statement requires governments to disclose information in the notes about the processes through which constraints are imposed, as well as accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to be spent.

The Authority conforms its fund balance reporting to the classification and hierarchy structure of the State, generally as follows:

Restricted

Fund balance is reported as restricted when constraints placed on resource use are either (a) externally imposed by creditors, grantors, contributors, laws or regulation of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the State to assess, levy, charge, or otherwise mandate payments of resources from resource providers and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable requirement is one that an outside party can compel the government to honor.

Committed

Fund balance is reported as committed if the Authority's by-laws or official actions, including adoption of its annual budget, constrain the use of its resources. Committed constraints can be removed only through similar action that created the constraint.

Assigned

Fund balance is reported as assigned if the fund balance is constrained by the Authority's intent to expend resources for specific purposes. Such intent may be expressed by an official or body pursuant to delegation by the Authority.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

Note 2. Summary of Significant Accounting Policies (continued)

Fund Balance (continued)

Non-spendable

Fund balance is reported as non-spendable if the balance has a lack of availability in form or substance of the assets and liabilities reported in the fund to meet its obligations in the near future.

Unassigned

Fund balance is reported as unassigned for all residual amounts not otherwise classified.

The Authority has no assigned, non-spendable or unassigned fund balance.

The Authority's bond enabling act provides a covenant for the irrevocable assignment of certain of the Authority's assets during any time bonds are outstanding, plus one year and one day thereafter. All of the Authority's outstanding bonds were retired on June 1, 2012. Accordingly, until June 2, 2013, certain of the Authority's assets were classified as restricted by bond covenants because they were subject to a legally enforceable external constraint by the terms of the Trust Indenture.

Subsequent to June 2, 2013, assets previously restricted by bond covenants are available to the State in accordance with the expenditure provisions of Section 11-11-170 of the South Carolina Code of Laws 1976, as amended (the "Expenditure Act"). The Authority classifies all TSRs held at, or received or receivable subsequent to June 2, 2013, as restricted by statute, since the Expenditure Act constrains the use of that portion of the Authority's resources. The remaining portion of net position is reported as unrestricted.

Likewise, in the Governmental Fund Balance Sheet, the portion of fund balance that is subject to the Expenditure Act is reported as restricted by statute; however, the remaining portion of fund balance is reported as committed to operating expense inasmuch as that portion of fund balance is constrained by the Authority's annually adopted budget. The Authority has full statutory power to adopt, revise and rescind its budget, and to expend funds for the costs of administering its operations.

The Authority classifies the expenditure of funds when incurred based on the nature of the expenditure, with externally directed expenditures generally made from restricted funds, and expenditures made within the discretion of the Authority or subject to its own budget, primarily its authorized operating expenditures, made from committed funds.

The Authority is required by State proviso to transfer any remaining TSRs, after transfers to the South Carolina Attorney General and Law Enforcement Division, to the South Carolina Department of Health and Human Services ("HHS"). At HHS' request, the Authority held \$122,419 of cash due to HHS at June 30, 2021 and has recorded a liability to HHS as a result for the remaining transfer of these funds.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

Note 2. Summary of Significant Accounting Policies (continued)

Administrative Expenses

The State of South Carolina and certain of its agencies perform certain accounting, administrative, legal and enforcement services for the Authority, and the value of these services is accounted for as general government expenses in the financial statements. Note 6 – Related Party Transactions contains descriptions of and amounts expended for these purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Deposits

Prior to June 2, 2013, the Authority's cash deposits held by the trustee were held in several restricted accounts in the name of the Authority, subject to investment restrictions imposed by the Trust Indenture. The Authority has not adopted a formal policy for these deposits because the Trust Indenture contains these restrictions.

Subsequent to June 2, 2013, all of the Authority's cash deposits are under the control of the State Treasurer who, by law, has sole authority for investing State funds. State law requires full collateralization of all bank balances under the control of the State Treasurer, who must correct any deficiencies in collateral within two days. At June 30, 2021, all bank balances under the control of the State Treasurer were fully insured or collateralized with securities held by the State's agent in the name of the State Treasurer.

The following schedule reflects the Authority's deposits at their fair and reported values at June 30, 2021, and reconciles the amounts reported in the statement of net position to the notes.

Notes		Statements	
Deposits			
Held by State Treasurer	\$ 5,283,253	Cash and cash equivalents	\$ 5,283,253
Totals	<u>\$ 5,283,253</u>		<u>\$ 5,283,253</u>

Further information concerning among other things values and risks of deposits and investments under the control of the State Treasurer, including disclosure under GASB Statement No. 40, Deposits and Investments - Risk Disclosures, is disclosed in the Annual Comprehensive Financial Report of the State of South Carolina, which may be accessed at www.cg.sc.gov.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Note 4. Bonds Payable

On March 22, 2001, the Authority issued \$934,530,000 aggregate principal amount of Tobacco Settlement Asset-Backed Bonds (the "Series 2001 Bonds") pursuant to an indenture between the Authority and United States Trust Company of New York (subsequently acquired by the Bank of New York), as trustee, dated as of March 1, 2001, and the Tobacco Settlement Revenue Management Authority Act. On June 26, 2008, the Authority defeased the Series 2001 Bonds with certain cash funds and proceeds of \$275,730,000 Tobacco Settlement Revenue Management Authority Tobacco Settlement Revenue Asset-Backed Refunding Bonds, Series 2008 (the "Series 2008 Bonds") issued pursuant to an indenture between The Bank of New York Trust Company, N.A., as trustee, and the Tobacco Settlement Revenue Management Authority.

At June 30, 2021, a total of \$64,890,000 of the Authority's legally and economically defeased Series 2001 Bonds remained outstanding; however, all of the Series 2001 Bonds are deemed paid within the meaning of and with the effect expressed in, and accordingly are no longer outstanding under, the Trust Indenture.

The Series 2008 Bonds were scheduled to retire in ordinary course on June 1, 2018; however, under early redemption provisions ("Turbo Redemptions"), any MSA payments exceeding annual debt service requirements of the Series 2008 Bonds were applied to early redemption of principal. On June 1, 2012, the Authority had sufficient funds to redeem as Turbo Redemptions the entire principal amount of the Series 2008 Bonds then outstanding; accordingly, all of the Authority's debt has been fully discharged.

Note 5. Disputed Payments

Under the provisions of the MSA, the participating manufacturers ("PMs") are potentially entitled to an adjustment of their required payments under the MSA (an "NPM Adjustment") in the event that all of the PMs, in the aggregate, lose more than two percentage points of market share compared to the market share of the PMs in 1997. However, the annual adjustment cannot be applied against settling states that have enacted and diligently enforced an escrow fund statute during the applicable year. Each year since 1999, the PMs have requested that the Independent Auditor, PricewaterhouseCoopers, apply the NPM Adjustment. In accordance with the terms of the MSA, the Independent Auditor will not apply any given year's adjustment until a panel of three arbitrators determines the diligent enforcement efforts of all states. In 2003, the MSA signatories settled the NPM Adjustment disputes for 1999 through 2002.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

Note 5. Disputed Payments (Continued)

In May 2013, South Carolina joined 21 other states and the PMs in agreeing to terms of a settlement of the NPM adjustment disputes for the years 2003 through 2012. In October 2017, the terms of the settlement for 2003 through 2012, were memorialized in the NPM Adjustment Settlement Agreement (the "Agreement"). Between 2013 and October 2017, the number of signatory states increased to 35, and during that same period, those states and the PMs agreed to settle the 2013 through 2015 NPM Adjustment disputes. Thereafter, in November 2018, an addendum to the Agreement resolved the 2016 and 2017 disputed payments. In July 2020, the Agreement was further extended to resolve the 2018 through 2022 disputes. The State of New York settled its disputed payments in a separate agreement with the PMs. The Agreement and addendum provided that the signatory states would receive certain payments released from the disputed payments account and that the PMs would be entitled to take certain credits from MSA payments. In addition to the financial terms of the settlement, the PMs agreed to reduce withholding amounts for future disputed payments, and the parties agreed to a modification of the diligent enforcement standards for future NPM Adjustment disputes.

As of its most recent payment dates of April 15, 2021 and April 22, 2021, South Carolina has received \$148,133,649 released from the MSA Disputed Payment Account (DPA) related to the Agreement. For the same time period, South Carolina related MSA payment credits and DPA funds disbursed to the PMs totaled \$85,863,140.

The \$85,863,140 in South Carolina related MSA payment credits and DPA funds disbursed to the PMs was retained by the PMs as a result of the settling of NPM adjustment disputes. The State of South Carolina has chosen not to litigate the PMs assertion that South Carolina has not diligently enforced statutes created in response to the MSA between the State of South Carolina and the PMs.

South Carolina's current estimated minimum exposure related to the NPM adjustment is \$17,326,089 (Sales Year 2020) relating to challenges of diligent enforcement and other settlement factors. At this time the result of this dispute cannot be determined.

Note 6. Related Party Transactions

The State of South Carolina, through the Office of Attorney General, the State Law Enforcement Division, and the South Carolina Department of Revenue, provides certain legal and enforcement services to the Authority. During the fiscal year ended June 30, 2021, the Authority made or provided for \$2,028,000 in expenditures from its general fund to these state agencies to cover costs of providing these services. The Office of State Treasurer provides administrative, investment, operations, record keeping, and other support services to the Authority; however, no reimbursements were made by the Authority during the fiscal year ended June 30, 2021 to cover costs of providing these services.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY

(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

Note 7. Risk Management

The Authority is exposed to risks of loss from torts and maintains State coverage for these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. The insurer promises to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for the deductibles. The Authority and other entities pay premiums to the State's Insurance Reserve Fund ("IRF") which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to torts. The IRF is a self-insurer whose rates are determined actuarially.

No payments for uninsured losses were made during the fiscal year ended June 30, 2021.

Note 8. Subsequent Events

The Authority has evaluated all events subsequent to the statement of net position date of June 30, 2021 through the date of issuance of these financial statements, September 27, 2021, and has determined that there are no subsequent events requiring disclosure.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	Budgeted Amounts			Variance
	Original	Final	Actual	Positive/(Negative)
Revenues				
Tobacco settlement receipts	\$ 70,000,000	\$ 70,000,000	\$ 84,349,252	\$ 14,349,252
Investment earnings	-	-	976,325	976,325
Total revenues	<u>70,000,000</u>	<u>70,000,000</u>	<u>85,325,577</u>	<u>15,325,577</u>
Expenditures				
Contractual services	32,000	32,000	26,200	5,800
Fixed charges and contributions	4,473	4,473	5,010	(537)
Total expenditures	<u>36,473</u>	<u>36,473</u>	<u>31,210</u>	<u>5,263</u>
Transfers				
Transfers to other state agencies	70,000,000	70,000,000	85,325,577	(15,325,577)
Total transfers	<u>70,000,000</u>	<u>70,000,000</u>	<u>85,325,577</u>	<u>(15,325,577)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (36,473)</u>	<u>\$ (36,473)</u>	<u>\$ (31,210)</u>	<u>\$ 5,263</u>

See accompanying notes to required supplementary information.

TOBACCO SETTLEMENT REVENUE MANAGEMENT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA)
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
NOTES TO BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

Note 1. Basis of Presentation

Section 11-49-60 of the South Carolina Code of Laws 1976, as amended requires the Authority to adopt an annual budget for its operational expenditures. The accompanying budgetary comparison schedule compares the Authority's legally adopted budget to actual results on the budgetary basis.

Note 2. Budgetary Revisions

The Authority maintains budgetary control at the object category of expenditure and must approve any transfer of appropriations between the object categories.

Note 3. Differences in Budgetary and GAAP Reporting

The accompanying budgetary comparison schedule compares the Authority's legally adopted budget with actual results in accordance with the Authority's basis of budgeting. The Authority's primarily cash basis budgetary accounting principles, however, differ significantly from GAAP. These different accounting principles may result in basis differences in the excess (deficiency) of revenues over expenditures. Basis differences arise because the basis of budgeting differs from the GAAP basis used to prepare the governmental fund statement of revenues, expenditures and changes in fund balance. The primary differences reflected in the budgetary comparison schedule for the fiscal year ended June 30, 2021 were as follows:

Total revenues, budgetary basis	\$ 85,325,577
Reduction in accrual for TSRs not accounted for under the budgetary basis	<u>4,000,000</u>
Total revenues, GAAP basis	<u>\$ 89,325,577</u>
Total expenditures, budgetary basis	\$ 31,210
Transfers accounted for as expenditures for GAAP	<u>2,028,000</u>
Total expenditures, GAAP basis	<u>\$ 2,059,210</u>

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mr. George L. Kennedy III, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Tobacco Settlement Revenue Management Authority (the "Authority") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 27, 2021.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Columbia, South Carolina
September 27, 2021

The Holla Group, P.A.